

annual report 1971

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BRENDA MINES LTD.

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BRENDA MINES LTD.

SUMMARY REPORT OF PROCEEDINGS AND ADDRESS TO MEMBERS

By
BERNARD O. BRYNELSEN
President

ANNUAL GENERAL MEETING

Vancouver, B.C.

April 29, 1970

This brief report has been prepared for the benefit of those Members who were unable to attend the Annual General Meeting held on April 29, 1970.

The meeting convened at 2:30 p.m. at the Hotel Vancouver, Vancouver, British Columbia.

The Annual Report as at December 31, 1969, comprising the Directors' Report, the General Manager's Report and Auditors' Report, was submitted.

The following Directors were elected, namely: Bernard O. Brynelsen, Mervin E. Davis, John A. Hall, Hidemasa Kubo, Morris M. Menzies, Shusuke Mima, Richard V. Porritt, Alfred Powis and W. S. Row.

Messrs. Peat, Marwick, Mitchell & Co., Chartered Accountants, were appointed auditors for the ensuing year.

At a meeting of the Board of Directors held later the same day, the following officers were elected or appointed: Bernard O. Brynelsen, President; Richard V. Porritt, Executive Vice-President; Mervin E. Davis, Vice-President and E. Kendall Cork, Treasurer. The previous appointments of John A. Hall as General Manager and W. Harrison as Secretary were confirmed.

BRENDA MINES LTD.

Address by Bernard O. Brynelsen, President

April 29, 1970

On behalf of the Directors, it is a pleasure for me to welcome you to this Annual General Meeting of your Company.

All major process facilities were essentially completed and operational in March. At the end of the month the four concentrator circuits were in simultaneous operation and metallurgical results were at expected levels. Average production per calendar day was 14,188 tons from March 1-15, 20,507 tons March 15-31 and 24,200 tons April 1-15.

During the first quarter of 1970 the total material stripped was 2,414,500 tons of which 879,700 tons grading 0.205% copper and 0.055% molybdenum were treated in the concentrator. The recovery for copper was 91.27% and for molybdenum 81.69%.

Some difficulties were experienced, mainly the freezing of fines in the mill feed ore bins, excessive dust in certain locations, starting and control problems with the grinding mill motors and leaks in the piping systems of the leaching plant. Corrective measures are in progress.

The copper and molybdenite concentrates produced during the quarter were shipped to Vancouver. The molybdenite concentrate produced to date has not been leached and since it does not meet sales specifications, it will be subject to a discount of 7¢ U.S. per pound of metal. Test runs of the molybdenite leaching circuit indicate satisfactory reduction of impurities and it is expected that it will be in regular operation in May.

Operations were stopped again by a strike from February 5th till February 20th. There were 70 staff and 258 hourly-rated employees on the payroll at March 31, 1970. Operating costs are approaching the expected levels giving allowance for the high cost of labour settlements negotiated throughout the Province in recent years.

In reference to sales, difficulties have developed for all B.C. producers in determining the actual price to be received for copper due to the recent cancellation of the E&MJ export price. The basis for final settlement is currently under negotiation and it is believed that an equitable settlement will be reached with the Japanese buyers. Copper concentrate is being accumulated in Vancouver and the first boat loading will be on May 14th. Molybdenite concentrate shipments to customers began early in April.

The capital cost of the project was within budget target considering delays due to construction and inflation. At March 31st, the total amount paid out and committed was \$59,464,000. It is estimated that the final cost will not exceed \$62.3 million when all delayed project costs are included. The funds up to a maximum of \$15 million required to meet any cost in excess of \$60 million are to be provided by Noranda Mines Limited through the purchase of income debentures, which will have 4 shares attached per \$100 debenture. It is indicated that less than 100,000 shares will be issued because of the overrun, and as I stated previously, the members' equity will have been well protected.

In reference to markets, the prices of both our products appear reasonably firm for the balance of the year. Copper was in tight supply during 1969 due to high European and Japanese consumption and delays

in new production. It is expected that a strong market will continue though by year end the gap between the overseas price and the U.S. domestic price may have narrowed somewhat. The price for molybdenum should be maintained at current levels. While there is some excess capacity appearing, consumption is rising rapidly and a more plentiful supply picture should encourage this trend.

Pollution has become a very important public topic recently. Some opinions and comments have simply been nonsensical statements, whereas others have been more critically constructive. From the outset, Brenda's management has been conscious of its responsibilities and obligations concerning environmental matters and continues to give close attention to this area of operation.

As a practical example of this concern, facilities related to tailings and water control cost your company over \$8 million, or approximately 13% of the total project cost. The tailings water is recycled for re-use in the concentrator and a system of dams assures that there will be no downstream flow from this facility. Over a thirty-year period, the tailings, which are finely ground particles of waste rock, will change a burned over, steep sided valley into a 700-acre plateau planted with grass and other types of vegetation. One can visualize that this area will be suitable for grazing or other uses in future years.

Another example of environmental improvement is the permanent dam at Peachland Lake. This installation has provided a major fresh water storage reservoir for the region and with designed controls assures both irrigation water to the Peachland valley and process water for our operation. The lake is over four times its original size and has already become popular for

such family recreational activities as boating, fishing and skidooing. One can readily realize the importance of this facility for future generations living in the district of Peachland, considering the growth in population and the irrigation needs in the Okanagan Valley.

Brenda's long range reclamation plan is depicted in the water colour paintings which are on display.

The mining industry is currently placed in an uncertain position by increasing government intervention and proposals to change the conditions under which the industry has operated. One example is the government's position on foreign ownership of uranium reserves and, of particular concern, the White Paper proposals on tax reform. In my opinion, exploration for new mines in Canada needs foreign capital and the long-term future of Canada will be better served by having continued incentives to encourage both foreign and domestic investment in Canada. The safe return of the Apollo 13 astronauts is a splendid example of what mankind can accomplish through communication, co-operation, intelligence and flexibility. I am optimistic that the many submissions and discussions with government officials will lead to a better understanding not only of the special risks and problem of mining, but also of the benefits to the country from a healthy growing mining industry.

The Board of Directors feels very proud of the accomplishments to date and are happy to report that your mine is now operating at designed capacity. On behalf of the Board of Directors and of myself, I would like to acknowledge with a great deal of thanks the tremendous effort and co-operation of all Brenda's employees, the consulting engineers and contracting firms, Noranda Mines Limited, The Bank of Nova Scotia, Nippon Mining Co. Ltd. and Mitsui & Co. Ltd.

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A total of 4,388,000 tons of ore was treated, an average of 24,240 tons per day. The average ore grade was 0.21% copper and 0.061% molybdenum, and metal recoveries were 90.03% and 85.16%, respectively.

Net earnings of \$890,000 reflect substantially lower copper prices as well as a moderate increase in operating costs.

The production and delivery of copper concentrate continued normally but molybdenum sales were slow and, at June 30, there was an unsold inventory of concentrate containing 6 million lbs. of molybdenum, representing about 7 months' production. The estimated value of the inventory at June 30 was \$9,904,000 compared to \$4,229,000 at December 31, 1970.

Molybdenum sales are expected to approximate production during the remainder of the year and there should be little, if any, further increase in the unsold stock.

Accrued income bond interest of \$4,739,000 was paid to Noranda Mines Limited on April 30.

Interim Report to the Shareholders
Six Months Ended June 30, 1971

FINANCIAL SUMMARY (not audited)

OPERATIONS

Six Months Ended June 30, 1971

| | |
|---|--------------|
| | (000's) |
| Value of concentrates produced | \$ 15,142 |
| Operating cost | 7,131 |
| Interest on long-term debt | 2,390 |
| Depreciation and preproduction expenses written off | 4,586 |
| Provided for mining taxes | 145 |
| | <hr/> 14,252 |
| Net Earnings | \$ 890 |
| Earnings per share | 20.8¢ |

SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30, 1971

Source

| | |
|---|-------------|
| Operations | |
| — Net Earnings | \$ 890 |
| — Depreciation and preproduction expenses written off | 4,586 |
| Deferred Taxes | 145 |
| Amortization of Financing Expenses | 332 |
| Miscellaneous | 17 |
| | <hr/> 5,970 |

Application

| | |
|--------------------------------------|----------|
| Fixed Assets and Preproduction | 964 |
| Increase in working capital | \$ 5,006 |

As regular production did not begin until April 1, 1970, comparative figures for the first six months of 1970 are not available.

BRENDA MINES LTD.

P.O. Box 420, Peachland, B.C.

INFORMATION CIRCULAR As at February 28, 1970

REVOCABILITY OF PROXY

A member giving a proxy has the power to revoke it in any manner permitted by law.

PERSONS MAKING THE SOLICITATION

The solicitation is made by the management of the Company in respect of the Annual General Meeting called for the 29th day of April, 1970 and the cost of the soliciting will be borne by Brenda Mines Ltd.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The particulars of the Company's equity shares are:

| | | |
|-------------|---|--|
| Authorized | — | 5,000,000 without nominal or par value |
| Outstanding | — | 4,190,000 One vote per share |

A proxy to be valid must be deposited at the office of the Canada Permanent Trust Company, 455 Granville Street, Vancouver, B.C. at or before the hour of 2:30 o'clock in the afternoon, Vancouver time, on the 27th day of April, 1970.

The shares represented by a proxy shall be voted and, where a choice is specified, the shares shall be voted in accordance with the specifications so made. IF NO CHOICE IS SPECIFIED IN A PROXY, THE SHARES REPRESENTED THEREBY SHALL BE VOTED IN FAVOUR OF ALL MATTERS REFERRED TO THEREIN.

The proxy confers discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting, and other matters which may properly come before the meeting.

A MEMBER HAS THE RIGHT TO APPOINT A PERSON TO ATTEND AND ACT FOR HIM ON HIS BEHALF AT THE MEETING, OTHER THAN THE PERSONS DESIGNATED IN THE FORM OF PROXY, AND MAY DO SO BY STRIKING OUT THE NAMES OF THE PERSONS DESIGNATED AND INSERTING SUCH OTHER PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY.

Noranda Mines Limited owns beneficially, directly and indirectly, 2,090,900 shares in the capital stock of the Company, and this represents 49.9% of the outstanding shares of the Company.

ELECTION OF DIRECTORS

(a) The term of office of each Director of the Company will expire at the next annual general meeting of the Company, unless sooner terminated.

The proposed nominees for Directors are:

| Name and other positions held in Company | Principal Occupations or Employments during the past five years and name and principal business of such employers. | A Director since | Approximate number of shares held as of date hereof (supplied by Nominees) |
|---|--|------------------|--|
| Bernard O. Brynelsen President | Chairman, Brameda Resources Limited (exploration of resources and research) | Apr. 1956 | 95,919 |
| Mervin E. Davis Vice-President — Finance | President, Brameda Resources Limited | Dec. 1965 | 74,850 |
| John A. Hall General Manager | Vice-President — Mining Projects, Noranda Mines Limited | Apr. 1969 | nil |
| Hidemasa Kubo | Executive, Nippon Mining Co. Ltd., Tokyo, Japan (mining, smelting & refining and petroleum & natural gas operations) | Dec. 1966 | nil |
| Morris M. Menzies | Vice-President, Brameda Resources Limited | Dec. 1965 | 140,021 |
| Shusuke Mima | Since May 1, 1969, General Manager of Nippon Mining Co. Ltd. branch in Canada; May 1, 1968 to April 30, 1969, Manager of the Overseas Business Department of the Nippon company in Tokyo; prior to May 1, 1968, Manager of Marketing Department of the Nippon company in Tokyo, Japan. | Aug. 1969 | nil |
| Richard V. Porritt | Vice-Chairman, Noranda Mines Limited | Oct. 1967 | nil |
| Alfred Powis | President, Noranda Mines Limited | May 1968 | nil |
| William S. Row | Executive Vice-President, Noranda Mines Limited | May 1968 | nil |

(b) Pursuant to the Company's financing agreement with Noranda Mines Limited dated April 18, 1968, the covenants and agreements of Noranda Mines Limited contained in that agreement are subject to and conditional upon the election of three nominees of Noranda Mines Limited to the Board of Directors of the Company. The nominees of Noranda Mines Limited are Messrs. Porritt, Powis and Row.

Pursuant to the Company's financing agreement with Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. dated April 17, 1968, the covenants and agreements of Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. contained in that agreement are subject to and conditional upon the election of two nominees of Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. to the Board of Directors of the Company. In addition, and pursuant to that agreement the Company has agreed that so long as Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. are committed to make any advance under that agreement and so long as any monies shall be owing by the Company to Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. under that agreement, two persons who are nominees of Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. shall be members of the Board of Directors of the Company. The nominees of Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. are Messrs. Kubo and Mima.

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid by the Company in the last completed financial year to the Senior Officers of the Company amounted to \$101,000. No remuneration was paid to any director as such.

APPOINTMENT OF AUDITORS

It is intended to appoint Peat, Marwick, Mitchell & Co. as Auditors of the Company who were first appointed December, 1965.

BRENDA MINES LTD.

P.O. Box 420
PEACHLAND, B.C.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of BRENDA MINES LTD. will be held in the Waddington Room, Vancouver Hotel, Vancouver, B.C., on Wednesday, the 29th day of April, 1970, at the hour of 2:30 o'clock in the afternoon, Vancouver time, for the following purposes:

1. To receive the Financial Statements of the Company for the year 1969 and the report of the Auditors thereon.
2. To elect Directors.
3. To appoint Auditors.
4. To confer on the Directors the annual authority to take or acquire by purchase or otherwise any shares in any other corporation.

If you are unable to attend the Meeting kindly sign and return the form of proxy accompanying this notice in the envelope provided for that purpose. A proxy to be valid must be deposited at the office of Canada Permanent Trust Company, 455 Granville Street, Vancouver, B.C., at or before the hour of 2:30 o'clock in the afternoon, Vancouver time, on the 27th day of April, 1970.

DATED this 20th day of February, 1970.

BY ORDER OF THE BOARD OF DIRECTORS

W. HARRISON

Secretary.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Pursuant to an agreement between the Company and Noranda Mines Limited dated April 18, 1968 and referred to in the Company's Information Circular dated May 10, 1968, Brynnor Mines Limited, a wholly-owned subsidiary of Noranda Mines Limited, has purchased 7.2% Income Bonds of the Company to the amount of \$27,500,000, and the Company has issued and allotted 1,740,000 shares in its capital stock to Brynnor Mines Limited. John A. Hall and W. Harrison may be said to have an interest in the above transaction in that they are employees or officers of Noranda Mines Limited or of a wholly-owned subsidiary of Noranda Mines Limited. Richard V. Porritt, Alfred Powis and William S. Row may also be said to have an interest in the above transaction in that they are officers and directors of Noranda Mines Limited.

Pursuant to an agreement between the Company and Nippon Mining Co. Ltd. and Mitsui & Co. Ltd. dated April 17, 1968, and referred to in the Company's Information Circular dated May 10, 1968, Nippon and Mitsui have purchased 7.3% Second Mortgage Bonds of the Company to the amount of \$6,971,475 U.S. funds and the Company has issued and allotted 24,000 and 16,000 shares in its capital stock to Nippon and Mitsui respectively. Messrs. Kubo and Mima may be said to have an interest therein in that they are employees, officers or directors of Nippon Mining Co. Ltd.

MANAGEMENT CONTRACT

(a) By agreement dated the 18th April, 1968 the Company appointed Noranda Mines Limited, 1700-44 King Street West, Toronto, Ontario, as Manager and Supervisor of the business and operations of the Company, to have effect from the 1st January, 1968, such management and supervision to always be subject to general directions from the Company's Board of Directors. Pursuant to the agreement the Company has agreed at all times to appoint one of Noranda Mines Limited director nominees as the Executive Vice-President of the Company. The agreement is to remain in force and effect so long as any monies are owing by the Company to any of the parties to the financing agreements and thereafter may be terminated by either party on not less than twelve (12) months' written notice.

(b) The insiders of Noranda Mines Limited are:

Louis Hébert, 511 Place d'Armes, Montreal, Quebec; Hon. G. B. Foster, Q.C., 3301 - 1155 Dorchester Blvd. W., Montreal, 2, Quebec; William James, 1506 - 44 King Street West, Toronto 1, Ontario; André Monast, 500 Grand Allee East, Quebec, P.Q.; J. D. Simpson, 700 Burrard Bldg., Vancouver 5, B.C.; W. P. Wilder, 36 King Street West, Toronto 1, Ontario; R. C. Ashenhurst; J. R. Bradfield; W. G. Brissenden; E. K. Cork; R. G. Driver; Edward Futterer; J. A. Hall; J. O. Hinds; L. G. Lumbers; R. L. Pepall; R. V. Porritt; Alfred Powis; R. P. Riggin; W. S. Row; D. E. G. Schmitt; A. H. Zimmerman, 1700 - 44 King Street West, Toronto 1, Ontario. The management of Noranda Mines Limited has advised the Company that Hollinger Mines Limited of 2412, 44 King St. West, Toronto 1, Ontario owns 1,801,520 shares, or approximately 7.4% of the outstanding shares of Noranda Mines Limited and that Labrador Mining and Exploration Limited, of 601, 1155 Dorchester Blvd. W., Montreal 2, Quebec, an affiliate of Hollinger Mines Limited, owns 815,310 shares, or approximately 3.4% of the outstanding shares of Noranda Mines Limited.

(c) The amount paid or payable by the Company to Noranda Mines Limited since the commencement of the Company's last completed financial year was \$215,152.51 which was made up of \$179,731.81 in respect of management and supervision fee and expenses incurred on behalf of the Company, \$35,420.70 being the Company's share of the salaries of the employees of Noranda Mines Limited who were employed on behalf of the Company. The management and supervision fee is at the rate of \$10,000 per month prior to the completion of the facilities necessary to place the Company's property in production. After such completion the management and supervision fee is to be reduced to \$5,000 per month.

BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

| | | | | | | | | | | |
|----------------------|---|---|---|---|---|---|---|---|---|-----------------|
| Bernard O. Brynelsen | - | - | - | - | - | - | - | - | - | Vancouver, B.C. |
| Mervin E. Davis | - | - | - | - | - | - | - | - | - | Vancouver, B.C. |
| John A. Hall | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| Shigeji Kizuka | - | - | - | - | - | - | - | - | - | Vancouver, B.C. |
| Hidemasa Kubo | - | - | - | - | - | - | - | - | - | Tokyo, Japan |
| Morris M. Menzies | - | - | - | - | - | - | - | - | - | Vancouver, B.C. |
| Richard V. Porritt | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| Alfred Powis | - | - | - | - | - | - | - | - | - | Toronto, Ont. |
| William S. Row | - | - | - | - | - | - | - | - | - | Toronto, Ont. |

OFFICERS

| | | | | | | | | | | |
|--------------------------|---|---|---|---|---|---|---|---|---|----------------------|
| President | - | - | - | - | - | - | - | - | - | Bernard O. Brynelsen |
| Executive Vice-President | - | - | - | - | - | - | - | - | - | Richard V. Porritt |
| Vice-President | - | - | - | - | - | - | - | - | - | Mervin E. Davis |
| General Manager | - | - | - | - | - | - | - | - | - | John A. Hall |
| Secretary | - | - | - | - | - | - | - | - | - | B. H. Grose |
| Treasurer | - | - | - | - | - | - | - | - | - | E. K. Cork |
| Comptroller | - | - | - | - | - | - | - | - | - | A. H. Zimmerman |

MINE OFFICE: P.O. Box 420, Peachland, B.C., G. H. Montgomery, Manager.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver

AUDITORS: Peat, Marwick, Mitchell & Co., 900 West Hastings Street, Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
455 Granville Street, Vancouver, and
1901 Yonge Street, Toronto.

ANNUAL MEETING: May 4, 1972, 3:00 p.m., Hotel Vancouver, Vancouver, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors present herewith the annual report of your company, together with the report of your Auditors for the year ended December 31, 1971.

Sales

The year 1971 was disappointing for your company. Owing to the weak molybdenum market, only 53% of the production was sold and at year-end the metal content of concentrate inventory had increased to 7.6 million pounds. Copper concentrate production was normal and sales realized an average price of 48¢ per pound. The copper concentrate was shipped to Japan until November when, following notice requiring a 20% reduction in shipments, excess tonnage was sent to an alternative smelter, involving higher transportation and treatment costs.

Earnings

Based on a conservative valuation of the unsold 1971 molybdenum production there was a net loss of \$337,000 before extraordinary income but after \$4.1 million interest charges, \$9.3 million write-offs and \$0.14 million mining taxes, a total of \$13.5 million. During the year, the First Mortgage Bonds, payable in U.S. funds were repaid and new bonds were issued in Canadian funds which gave rise to a gain of \$1,424,095 and a net profit of \$1,087,000 for the year.

Finances

Working capital amounted to \$15.4 million compared to \$6.9 million the previous year. Almost \$7.0 million of the additional working capital represents the increase in molybdenum concentrate inventory. The outstanding debt was \$58.5 million at year-end.

Production

The operating performance remained at a high level and unit operating costs were maintained in spite of higher material, energy and labour costs. A fourth tertiary crusher to reduce grinding cost and a regrind circuit to improve the grade of copper concentrate are being installed at a total estimated cost of \$1.3 million.

Markets

Demand for metals generally was affected by the atmosphere of uncertainty and the lack of confidence which prevailed for most of 1971.

The anticipated increase in copper production did not materialize due to losses from the U.S. industry strikes and continuing problems in Zambia and Chile. Consumption was down slightly and industry stocks were relatively unchanged. Overseas, prices declined from the U.S. equivalent of 58¢ in April to 47½¢ at the year end, and in the U.S.A. moved from 50¼¢ to 52¾¢ in March and then to 50¼¢ in November.

Copper has been in a balanced position this year. Any significant increase in capital investment or growth in overseas economies to parallel the trend in the United States could lead to an improvement in the copper market in 1972.

Free World production of molybdenum decreased 9 million pounds to 156 million reflecting cutbacks in response to sharply lower demand. Shipments were also affected by reductions in consumer inventories and producers' stocks doubled to over 100 million pounds. Product prices have declined significantly in the generally weak market conditions.

While some improvement in molybdenum consumption is expected in 1972, surplus capacity and stocks will probably remain for several years.

Your Directors express appreciation to the staff and employees for their loyalty and competent service rendered during 1971.

On behalf of the Board,



President.

February 7, 1972.

GENERAL MANAGER'S REPORT

To the President and Directors:

I submit herewith my report on operations for the year ending December 31, 1971.

| Operations | | 1971 | 1970 * |
|------------------------------|--------|-----------|-----------|
| Waste Stripped | — Tons | 6,911,300 | 3,609,000 |
| Low Grade Ore Stockpiled | — Tons | 2,339,100 | 2,090,900 |
| Ore Milled | — Tons | 8,987,210 | 7,326,559 |
| Copper Grade | — % | 0.212 | 0.216 |
| Copper Recovery | — % | 89.77 | 90.46 |
| Molybdenum Grade | — % | 0.062 | 0.064 |
| Molybdenum Recovery | — % | 86.13 | 86.53 |
| Copper Concentrate | — Tons | 80,675 | 67,580 |
| Copper Concentrate Grade | — % | 21.17 | 21.18 |
| Molybdenum Concentrate | — Tons | 8,559 | 7,170 |
| Molybdenum Concentrate Grade | — % | 56.09 | 56.47 |
| Tons Milled Per Day | | 24,622 | 20,073 |

* Includes pre-production start-up 3 months to March 31, 1970.

Open Pit

Operating efficiencies in the open pit were further improved with productivity averaging 967 tons per manshift. The rate of stripping waste and low grade ore was increased to equal that of ore production in order to maintain the balance required for operation during the next few years.

After milling 8,987,000 tons, the ore reserves declined by 11,000,000 tons to 154,000,000 tons grading 0.182% copper and 0.048% molybdenum. As in 1970, the material mined in a local oxidized surface area did not have the marginal stockpile grade indicated by the original surface drilling and 2,084,000 tons was discarded as waste. This problem should disappear as mining proceeds downward into unoxidized ore.

Concentrator

The milling rate averaged 24,622 tons per day with throughput being somewhat lower in the winter months because of difficulty with ore freezing in the mill bins.

Metal recoveries declined slightly during periods of higher milling rates and tests to maximize concentrate grades and, of difficulty from the use of reclaimed water containing a build-up of dissolved salts.

The molybdenum concentrate leaching plant was not operated after July on account of reduced orders for leached molybdenum.

The copper concentrate grade varied throughout the year due largely to the fluctuating pyrite content of the ore. After studying transportation and smelter treatment charges, it was decided to install a copper regrind circuit to improve the grade of copper concentrate. This new circuit is expected to be in operation late in 1972.

The hard granitic ore is highly abrasive and causes severe wear to conveyor belts, crusher and grinding mill liners. A fourth tertiary crusher is being installed to produce a finer rod mill feed and thereby lower grinding costs. Environmental conditions were further improved with the installation of four additional dust collector systems.

The water supply and tailings disposal systems functioned well throughout the year. The permanent second-stage cyclone tailings plant started operation in November and is producing suitable sands for dam building.

The copper concentrate inventory was 4,187 tons at December 31, 1971. All copper concentrate was treated in Japan until November when under force majeure due to more stringent pollution controls on smelters in that country, the rate of shipments was reduced by 20%. Alternative smelting arrangements, though at higher costs, were made for the resulting excess tonnage.

Against production of concentrate containing 9.6 million pounds of molybdenum, sales were 5.1 million pounds and the unsold inventory increased to 7.6 million pounds.

General

The Department of National Revenue fixed March 1, 1970 as the commencement date for the tax-exempt period.

The work force at the year-end consisted of 304 hourly-rated employees and 91 staff members.

Sincere thanks are extended to Mr. G. H. Montgomery, Mine Manager, his staff and to all employees for their loyal service, support and interest throughout the year.

Respectfully submitted,

JOHN A. HALL,
General Manager.

February 6, 1972.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1971

(With figures for nine months ended December 31, 1970)

| | 1971 | 1970 Nine months restated (Note 8) |
|---|---------------------|---|
| Gross value of concentrates produced | \$30,232,352 | \$25,325,139 |
| Less smelter and transportation charges | 2,357,696 | 1,689,876 |
| | <u>27,874,656</u> | <u>23,635,263</u> |
| Cost of concentrate production | 12,733,044 | 9,196,649 |
| Administration, selling and general expense | 1,022,000 | 636,935 |
| Municipal and sundry taxes | 529,142 | 355,654 |
| Depreciation and depletion (Note 3) | 3,524,826 | 2,564,018 |
| Preproduction expenditure written off (Note 3) | 5,750,742 | 4,315,779 |
| | <u>23,559,754</u> | <u>17,069,035</u> |
| Net operating income | 4,314,902 | 6,566,228 |
| Interest on long-term debt | 4,097,501 | 3,144,820 |
| Financing expense — written off (Note 3) | 664,259 | 498,194 |
| | <u>4,761,760</u> | <u>3,643,014</u> |
| Deduct other income | 250,894 | 166,041 |
| | <u>4,510,866</u> | <u>3,476,973</u> |
| Earnings (loss) for the year before mining taxes payable | (195,964) | 3,089,255 |
| Mining taxes payable (Note 8) | 141,398 | 369,721 |
| Earnings (loss) before extraordinary income | (337,362) | 2,719,534 |
| Foreign exchange gain realized on conversion of long-term debt (Note 6) | 1,424,095 | — |
| Net earnings for the year | 1,086,733 | 2,719,534 |
| Retained earnings at beginning of year | 2,719,534 | — |
| Retained earnings at end of year | <u>\$ 3,806,267</u> | <u>\$ 2,719,534</u> |
| Earnings (loss) per share (1970, nine months operations): | | |
| Before extraordinary income | \$(0.08) | 0.65 |
| After extraordinary income | 0.25 | 0.65 |

See accompanying notes to financial statements.

BRENDA MINES LTD.

BALANCE SHEET — DECEMBER 31, 1971 (With comparative figures for 1970)

| | ASSETS | |
|--|---------------------|------------------------------|
| | 1971 | 1970 Restated (Note 8) |
| Current Assets: | | |
| Cash and short-term commercial notes | \$ 1,308,620 | \$ 3,248,469 |
| Accounts receivable (\$5,826,639 due from an associate) | 6,795,846 | 3,317,227 |
| Inventories of concentrates and stores — concentrates at estimated realizable value, other inventories at lower of cost or replacement cost (Note 1) | 13,041,619 | 7,743,030 |
| Total current assets | 21,146,085 | 14,308,726 |
| Fixed Assets: (Notes 2 and 3) | 41,060,151 | 43,213,704 |
| Other: | | |
| Preproduction (\$7,190,372) and other expenditures (Note 3) | 7,297,851 | 13,035,219 |
| Financing expense less amortization (Note 3) | 3,985,547 | 4,649,806 |
| Refundable power deposit (Note 4) | 1,250,000 | 1,500,000 |
| Other deposits | 80,000 | 80,000 |
| | 12,613,398 | 19,265,025 |
| | <u>\$74,819,634</u> | <u>\$76,787,455</u> |

AUDITORS' REPORT

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1971 and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Vancouver, British Columbia,
January 21, 1972.

See accompanying notes

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1971 | 1970 Restated (Note 8) |
|---|---------------------|------------------------------|
| Current Liabilities: | | |
| Bank demand loan (Note 6) | \$ 1,980,000 | \$ — |
| Accounts payable (\$2,145,599 due to an associate) | 3,650,224 | 7,037,619 |
| Mining taxes payable (Note 8) | 141,398 | 369,721 |
| | <u>5,771,622</u> | <u>7,407,340</u> |
| Long-term debt (Notes 6 and 7) | 56,532,168 | 58,442,583 |
| Unrealized foreign exchange gain (Note 7) | 491,579 | — |
| Shareholders' Equity: | | |
| Capital stock: | | |
| Authorized 5,000,000 shares without nominal par value; issued 4,282,000 shares | 8,217,998 | 8,217,998 |
| Retained earnings, per accompanying statement | 3,806,267 | 2,719,534 |
| | <u>12,024,265</u> | <u>10,937,532</u> |
| On behalf of the Board: | | |
| B. BRYNELSEN, Director. | | |
| R. V. PORRITT, Director. | | |
| | <u>\$74,819,634</u> | <u>\$76,787,455</u> |

THE SHAREHOLDERS

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971

(With comparative figures for 1970)

| | 1971 | 1970 Restated (Note 8) |
|--|--------------|------------------------------|
| Working capital (deficiency) beginning of year | \$ 6,901,386 | \$ (553,857) |
| Source of Funds: | | |
| Operations: | | |
| Net earnings for the year | 1,086,733 | 2,719,534 |
| Add items not requiring a cash outlay: | | |
| Depreciation, depletion and amortization | 9,939,827 | 7,377,991 |
| Other | 32,930 | 25,442 |
| | 11,059,490 | 10,122,967 |
| Mortgage and income bonds | — | 2,300,000 |
| Other | 250,000 | 256,582 |
| | 11,309,490 | 12,679,549 |
| Application of Funds: | | |
| Property, buildings, equipment and preproduction expenditures | 1,404,202 | 4,591,626 |
| Reduction in long-term debt | 1,418,836 | 464,800 |
| Deposits | — | 80,000 |
| Other | 13,375 | 87,880 |
| | 2,836,413 | 5,224,306 |
| Increase | 8,473,077 | 7,455,243 |
| Working capital at end of year | \$15,374,463 | \$ 6,901,386 |

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1971

1. INVENTORIES OF CONCENTRATES:

Of \$11,100,000 of copper and molybdenum concentrates in inventory, approximately \$5,300,000 represents working stocks normally required to serve customers in a wide-spread market. The valuation of the inventory of molybdenum concentrate surplus to these requirements includes provision for carrying charges and a possible deterioration in realizations.

2. THE DETAILS OF FIXED ASSETS ARE AS FOLLOWS:

| | 1971 | 1970 |
|---|---------------------|---------------------|
| Buildings, equipment and related facilities | \$40,068,336 | \$38,837,055 |
| Mobile equipment | 6,509,232 | 6,353,116 |
| Residential land and buildings | 222,657 | 253,164 |
| | <u>46,800,225</u> | <u>45,443,335</u> |
| Less accumulated depreciation | 6,035,449 | 2,547,299 |
| | <u>40,764,776</u> | <u>42,896,036</u> |
| Mineral claims and leases, at cost less depletion | 295,375 | 317,668 |
| | <u>\$41,060,151</u> | <u>\$43,213,704</u> |

3. DEPRECIATION AND AMORTIZATION:

- (i) Depreciation is provided on depreciable assets at rates ranging from 6% to 12½% per annum.
- (ii) Mineral claims and leases are being depleted over fifteen years.
- (iii) Preproduction expenditure is being amortized in equal monthly instalments over the three years ending March 31, 1973.
- (iv) Financing expense is being amortized over the expected term of the related long-term debt.

4. REFUNDABLE POWER DEPOSIT:

Under an agreement with the British Columbia Hydro and Power Authority for the supply of electricity the company made deposits of \$2,000,000, which bear interest at 5%. The balance at December 31, 1971 of \$1,500,000 (of which \$250,000 is currently due) will be refunded in six equal annual instalments ending on August 1, 1977. The company is committed to pay at least \$500,000 for electricity in each of the seven years ending December 31, 1977.

5. INCOME TAXES:

The company has been granted exemption from Federal income tax for the three-year period which will end February 28, 1973.

The company has provided depreciation and written off preproduction expenditure in its accounts.

The estimated future income tax benefit which will accrue to the company when these items are charged for tax purposes has not been recorded, but at December 31, 1971 amounted to \$6,474,000.

6. LONG-TERM DEBT:

Bonds, repayable out of cash flow as defined:

| | 1971 | 1970 |
|---|---------------------|---------------------|
| 7.5% first mortgage bonds, due June 30, 1973 | \$19,600,000 | \$21,000,000 |
| 7.3% second mortgage bonds, due March 31, 1975 (\$6,971,475 U.S. funds) | 7,006,332 | 7,497,912 |
| 7.2% secured income bonds, due December 31, 1977 | 29,800,000 | 29,800,000 |
| | <u>56,406,332</u> | <u>58,297,912</u> |
| Liability payable when the secured income bonds have been retired ... | 50,000 | 50,000 |
| Secured notes and mortgage payable | 75,836 | 94,671 |
| | <u>\$56,532,168</u> | <u>\$58,442,583</u> |

During the year the first mortgage bonds, payable in U.S. funds, were repaid and new bonds issued in Canadian funds, which gave rise to a gain of \$1,424,095.

The bank demand loan is a revolving one and is secured by 7% Series C first mortgage bonds amounting to \$4,000,000 and by assignment of accounts receivable and inventories.

The bonds outstanding are secured respectively by first, second and third fixed and floating charges on the assets of the company.

Among other things, the trust deeds securing the bonds prohibit the payment of dividends until the bonds and accrued interest thereon have been paid in full.

7. FOREIGN CURRENCY:

Current assets in U.S. dollars have been converted at par.

In 1971, the company contracted to purchase sufficient U.S. funds at \$1.005 (Canadian) to cover the second mortgage bonds payable in U.S. funds. It is the company's intention to renew these contracts when due. Accordingly, this rate has been used to convert the company's U.S. debt into Canadian dollars at December 31, 1971, thereby giving rise to an unrealized foreign exchange gain of \$491,579.

8. RESTATEMENT OF 1970 ACCOUNTS:

The company decided to pay mining taxes on its 1970 income rather than defer them. The amount of these taxes, which has been increased slightly, has been restated as a current rather than a deferred liability.
